

**Transcript of Remarks by Senator Kent Conrad (D-ND)
at Senate Finance Committee Hearing on Social Security
April 26, 2005**

I thank the Chairman. I thank the witnesses.

One of the things that struck me about this debate is that nobody questions the basic assumptions. And as I looked at the basic assumptions of the Social Security Actuaries, I've found as they look ahead for the next 75 years, they say that the economy is only going to grow at a rate of 1.9 percent a year for the next 75 years.

Looking back, if you look at the last 75 years, the economy grew at a rate of 3.4 percent a year for 75 years. If we would have the same economic growth going forward that we had in the past, 90 percent of the Social Security shortfall would evaporate.

Ten years ago, the Social Security Actuaries told us, you have 35 years left of solvency. Now, ten years later, they tell us, you've got 35 years left of solvency. They have been wrong. And they have been wrong because they have consistently underestimated economic growth. I believe, in all likelihood, they are wrong again.

Now, does that mean we don't have a problem? I don't think so. Because, the thing we know is going to happen is that the baby boom generation is going to retire. And that is not a projection. They have been born, they are going to be eligible for Social Security and Medicare, and they are going to retire and the numbers are going to increase dramatically.

As I analyze this problem, I believe we've got a serious budget problem. A budget problem, in part, caused by Social Security, because those bonds we all talk about have to be redeemed out of current income. That is a fundamental budget problem that we confront. In addition, under the President's budget proposal, he's making it all much worse because he is taking Social Security money and is using it to pay for other things.

Senator Hatch asked the flip of this question. He asked, "Isn't it true that we've always used payroll taxes to support Social Security?" What he didn't ask is: Isn't it true that under the President's budget plan, we're using Social Security money to pay for tax cuts, income tax cuts, and other things? And that is also true. That's precisely what's being done. Over the next ten years, under the President's plan, he's taking \$2.5 trillion dollars of payroll tax money and using it to pay for income tax cuts and for other things. He's digging the hole deeper when he says we've got a shortfall in Social Security.

Well, it's not just there that we've got a problem, we also have a problem with his plan itself. Because he's got nothing in his budget for his Social Security plan. But over the next ten years, we know that his plan costs \$750 billion dollars. Because he is diverting money from Social Security private accounts. So that again digs the hole deeper. That is on top of the \$2.5 trillion dollars of payroll tax money that he's taking to use to pay for other things. Now he says take another \$750 billion out of payroll taxes and use it to create individual accounts.

Let me just say, I've always been somebody that thought there was a kernel of a good idea with individual accounts. But I've never thought it was a good idea to finance it by massive debt. And the President's plan does precisely that. In fact over twenty years, he says borrow another over \$4 trillion dollars to start these private accounts. Again that just digs the hole deeper and deeper.

As I analyze it, what we've got is a serious budget problem. We've got record budget deficits. On top of that we've got a shortfall in Social Security, although I believe the Actuaries have been overly pessimistic with respect to the projections there.

Now Medicare is the real 800 pound gorilla because the shortfall in Medicare is nearly \$30 trillion dollars according to the Congressional Budget Office, compared to \$4 trillion in Social Security. So we have got a very serious budget problem that nobody seems to want to deal with around here. And I think one of the reasons is our friends on the other side want more tax cuts – tax cuts that explode in costs beyond the five-year budget window, that dig the hole deeper and deeper, that are taking, in effect, money from Social Security in order to fund them.

And if we look at the debt of the country, at a time the President told us we would be paying down debt, instead the debt is exploding. This is just the publicly-held debt. Looking at the gross debt of the United States, the picture is even worse.

So, what strikes me most of all is that we're avoiding the real problems – it's almost a diversion here that is going on. The real problem is a budget problem, in part caused by Social Security, largely caused by demographics, overwhelmingly caused by the shortfall in Medicare and the already record budget deficits we're running. But nobody wants to deal with that set of problems because that leads to real tough choices.

Let me just ask, I would like to ask Mr. Orszag this question, I know you are an economist, does this debt matter and would adding to the debt matter to the economic strength of the country?

Orszag:

Absolutely. Let me first give you the argument to the contrary, but then tell you why it is not the case. People look at these loans and say, ok, we issue another government debt today, but we have these promises that people will pay us back in 30, or 40, or 50 years and that will wash the additional debt out. Bob Rubin will tell you financial markets are going to discount that 30, or 40, or 50-year promise down the road heavily, in part, because it relies on your future Senators upholding the loan repayments – and I have very little confidence that over a 50, 60, 70-year period we will actually stick to a plan that is put in place. And I think that it is very important to look at a period that long. Even if you combine accounts with solvency changes like price-indexing that involve deep benefit cuts, the administration's own analysis shows that debt does not fall below the baseline, that is fall below what it would have been without the plan for 60 years. That would be like we put in a plan at the end of World War II, we actually stuck with it the whole time since then. Only now would we experiencing any net reduction in debt.